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C O N F I D E N T I A L SECTION 01 OF 03 SANAA 002151

SIPDIS

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TAGS: [KVPR](#) [ETTC](#) [EFIN](#) [PTER](#) [PREL](#) [CVIS](#) [YM](#) [COUNTER](#) [TERRORISM](#) [TERFIN](#)

SUBJECT: YEMEN FIGHTS TERRORIST FINANCING WITH LIMITED
RESOURCES

REF: A. SANAA 04 380

[B](#). SANAA 2115

Classified By: DCM Nabeel Khoury for reasons 1.4 b and d.

[1](#)1. (C) Summary. Yemen has a strong legal framework and considerable political will to combat terrorist financing, but is hampered by insufficient resources and a poorly organized banking sector. Although the volume of transactions is low, terrorists take advantage of the largely unregulated Yemeni banking system to support terrorist organizations. Banks in Yemen report suspicious activities mostly on a voluntary basis, and the anti-Money Laundering Unit at the Central Bank does not have the capacity to investigate effectively foreign currency transfers and hawala houses. Despite a difference of opinion regarding the listing of Zindani on the Terrorist Watch List, the ROYG has a strong interest in strengthening its oversight capacity and requires extensive assistance to do so. End summary.

The Legal and Political Framework

[1](#)2. (SBU) Law 38 for Money Laundering (and Highway Robbery) was issued in 2003, and serves as the legal basis for ROYG efforts in combating Terrorist Financing (TF). The law gives the Central Bank of Yemen (CBY) authority to create an Anti-Money Laundering Unit, which gathers information from public and private banks. The unit also handles TF, but avoids the term "terrorist financing" due to public sensitivity, which also makes it unlikely that they ROYG will pass specific TF legislation in the near future. The law established the Higher Committee on Money Laundering in 2004, chaired by the Minister of Finance, which includes key ministries and representatives of the private sector. The committee serves as the primary link to MENA FATF (Financial Action Task Force) in Bahrain, as well as to the IMF and other international organizations. A separate Terrorist Financing Committee, headed by the Ministry of Foreign Affairs, has been in existence since 2000. It meets at least once every two months, circulates blacklists from the UNSC to banks, and responds to UN questions. The two committees often meet jointly.

[1](#)3. (C) Abdullah al-Olafi, Sub-Governor for Banking Supervision at the CBY, believes that TF activity is limited in Yemen. It is not a common safe haven for illegal funds, said Olafi, as the banking system is small and large transactions would be easy to detect. Olafi suggested that terrorists in Yemen are more likely to operate in the informal sector, using hawalas or cash. In a veiled reference to Zindani's accounts in commercial banks, Olafi said it was not the job of the CBY to make political decisions about which accounts to investigate, only to carry out directives from the ROYG (ref A). Nevertheless, said Olafi, the political will exists in the ROYG to improve oversight -- there just are not enough resources to do so effectively at this time. The CBY has circulated all TF lists from FATF and the ML unit is gathering information on these individuals.

Mechanics of Fighting Money Laundering

[1](#)4. (C) All commercial banks are required to establish internal anti-money laundering (ML) units, and must inform the CBY of any suspicious transactions. Due to limited resources at the CBY, this operates on a voluntary basis and few suspicious activities are referred in practice. When a report is filed, the form is completed by hand and delivered to the CBY. A report triggers action from the Anti-ML Unit, which to date has turned up six cases of fraud and one person on the CBY blacklist. All investigated cases to date occurred at privately owned banks.

[1](#)5. (C) By law, banks are required to report any transaction exceeding 10,000 USD or any suspicious activity, but in practice this rarely occurs. According to Abdu Hizam, head of the Anti-ML Unit, there are currently three ML cases under investigation. The unit currently has no supervision authority over foreign currency transactions, and banks are not required to report such activities. Pending amendments to the CBY Law may remedy this, but Hizam said the unit is

too overwhelmed to handle additional responsibilities. The law does restrict export of over 10,000 USD.

16. (C) Banking oversight is conducted as part of the CBY's annual on-site bank inspection, when CBY staff review the banks' balance of payments. There are a total of 18 field inspectors and three employees at the main office (one of whom is abroad pursuing an advanced degree). The inspectors are responsible for monitoring all commercial banks, as well between 300-400 hawalas. The unit also draws on the broader CBY staff for expertise, including legal and IT. The Ministry of Labor and Social Affairs is responsible for oversight of NGOs, and there is little communication between MOL and the CBY. The Higher Council of Parties supervises the activities of political parties. The Bank is technically able to monitor NGOs and parties by accessing their bank accounts, but has never done so.

Beyond the Central Bank

17. (C) There is a separate ML division at the Ministry of Interior that has a "special security focus." Officially, MOI is required to report its findings to the CBY, and Mustafa Qaid, General Manager for Legal Affairs at the CBY, reported one case currently under investigation at MOI. The Ministry of Finance also has a Financial Information Unit, headed by former Deputy Director Ahmed Ghaleb, which functions as a technical sub-committee to the Higher Committee and drafts ML and TF legislation.

18. (SBU) Yemen is a founding member and regular participant in MENA-FATF, and has directed all commercial banks and hawalas to comply with the organization's recommendations. To this end, the CBY offered training to government employees, as well as NGOs and insurance companies, on monitoring sources of financing. At a November 30 MENA-FATF meeting in Bahrain, Ahmad al-Bashari, head of the FIU at the Department of Treasury, promised to include Yemen in the Egmont Group. According to Qaid, Yemen seeks to host a MENA-FATF conference in 2006. (Note. The Egmont Group was established in 1995 as an informal group of Financial Intelligence Units to encourage cooperation between countries in investigating financial crimes. End note.)

Working Under Primitive Conditions

19. (SBU) The ML Unit is seeking assistance in a number of areas. The staff is severely limited by their technology, working from laptops they received from the IMF eight years ago, and has no database or network. The unit also requires help with organization structure, information management, and specific training for staff on supervision of electronic transactions. The IMF has promised limited training, but not equipment.

110. (SBU) The CBY itself is computerized, using an Oracle database with COBAL interface, but its branches are not connected. Most internal communication is still done by fax and employees use dial-up internet connections. At this time, the CBY tracks all payments by hand, which is manageable as Yemen clears only 2000 checks per day. In the long run, however, the CBY seeks to reach an agreement on a central switch to link all banking transactions and link branches electronically. This would allow all commercial bank reports to be provided electronically and offer the CBY improved oversight of suspicious transactions. (Note: The U.S. Treasury Regional Office in Abu Dhabi is initiating a project on August 14 to improve the CBY payments system. End note).

Comment: Chaos of System Invites Abuse

111. (C) In terms of pure volume, Yemen is likely a smaller arena for TF than other countries in the region. Nevertheless, the anarchy of the banking system makes it easy to abuse. Despite President Saleh's protestations to the contrary, it is highly likely that Zindani and the al-Iman University that he supports conduct significant banking business in Yemen. There is also evidence that Shiekh Mohammed Ali Hassn al-Moayad, sentenced on July 28 to 75 years in prison for conspiracy to provide material support to Hamas, used the Yemeni banking system for TF transfers (ref B). The hawala houses, which must use commercial banks to reconcile balance sheets, remain easy targets for TF. The Yemeni financial system is attractive for TF because of sympathetic tendencies among some bank officials and proximity to terrorist activity.

112. (C) The CBY is very interested in increasing its oversight capacity, and both the MFA and MOF take the issue

seriously. Membership in MENA FATF is considered a bright spot in relations with the GCC, and one area where Yemen can build support for full membership. The ROYG continues to resist U.S. requests to impose a travel ban on Zindani or to seize his accounts, insisting that they must have evidence of his links to terror. The Zindani case is particularly volatile for the ROYG, however, and does not represent a categorical refusal to cooperate on TF. The ROYG is seeking support for an effective monitoring system, without which there is little chance of identifying TF activity in Yemen. End Comment.
Krajeski